



February 22, 2009

## **Stimulus light on aiding car sales**

Plans to aid industry left out to cut costs, reach consensus

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The U.S. stimulus package -- the \$787-billion spending initiative designed to help fix the suffering economy, save jobs and lift consumer confidence -- includes few measures aimed at directly boosting sales of new cars and trucks.

The collapse of auto sales has led the domestic auto industry so far to seek nearly \$100 billion in federal assistance and put tens of thousand of jobs in jeopardy.

But key provisions of the stimulus package that would have given auto sales a substantial boost, and helped the industry out of its current woes, were left out due to both a lack of consensus within the automotive industry and last-minute efforts to trim the size of the package.

"When you look at the whole stimulus package, there is really not that much that is directed at consumers, or consumer spending," said Charles Territo, spokesman for the Alliance of Automotive Manufacturers.

What remains in the stimulus package for the automotive industry is about \$3.75 billion in tax rebates and credits for new cars and hybrid vehicles and another \$300 million for the federal government to buy hybrid and electric fleet vehicles.

"I don't think much of it as far as the auto industry is concerned," Art Spinella, president of CNW Marketing Research in Bandon, Ore., said of the stimulus package.

## **'No automaker is viable'**

U.S. consumers bought just 656,976 new cars and trucks in January -- the lowest seasonally adjusted annual selling rate in 27 years -- and early reports for February show industry sales are on track for another dismal month.

Those declining auto sales are a key reason General Motors Corp. and Chrysler LLC are seeking as much as \$39 billion in federal loans and credit. Their finance companies and auto suppliers also have sought billions in support.

The drop-off has been a source of losses for most other automakers, too.

Ford Motor Co. just reported a \$14.6-billion loss for 2008, the largest annual loss in its 105-year history. Even Toyota Motor Corp., long the world's most profitable automaker, is expecting its first annual loss since 1950 for its fiscal year, which ends in March.

"No automaker is viable under the current market conditions," Edmunds.com Chief Executive Officer Jeremy Anwyl said in a report last week.

But Anwyl and other industry experts say they don't believe the stimulus package does much to solve the problem.

"So far, the spending package appears to spread money too thin to actually make much of a difference," Anwyl said.

## **The 1% stimulus**

The provision in the stimulus package that will have the biggest direct impact on automotive sales is a sales tax rebate that was part of an amendment cosponsored by U.S. Sen. Debbie Stabenow, D-Mich.

The rebate allows the buyer of a new vehicle to claim the sales tax as a deduction next year when personal income taxes are filed.

Lionel Yron, director of consulting and analytics for R.L. Polk & Co., said the provision will generate an average tax rebate of \$330 per vehicle. Yron said the tax rebate will affect consumer behavior much like manufacturer sales incentives at a time when manufacturers already are offering thousands of dollars off of many vehicles.

"So it's not much of an incentive on top of what manufactures are already putting out there," Yron said.

Based on the effectiveness of manufacturer incentives, Yron estimates that the tax rebate is likely to boost sales of new cars by 94,000 vehicles this year. That's less than 1% of total expected industry sales in 2009.

"Even though it wasn't all that I would have liked, I think it is a good first step," Stabenow said.

## **Hoping for more**

Originally, the tax rebate proposal included a deduction for the interest on loans for new vehicle purchases. Polk estimates that rebate would have averaged \$1,250 per vehicle and would have provided a sales boost of 359,000 new cars and trucks, but

that provision was pulled as negotiators worked to cut the overall size of the plan.

Another amendment that was excluded from the stimulus plan is commonly called "cash for clunkers."

One version was criticized because it favored foreign manufacturers and another was criticized because it included a "buy American" clause.

Territo, of the Alliance of Automotive Manufacturers, is optimistic that an industry consensus eventually can be reached on a "cash for clunkers" proposal and is disappointed it was cut from the stimulus plan.

"That is something that I think there is a great deal of support for," Territo said. "It's an idea that makes sense from both a policy perspective and an economic stimulus perspective."

## **Indirect pickup**

There is hope that the automotive industry indirectly will benefit from the stimulus package, however.

The stimulus package includes about \$144 billion for state and local governments, as well as \$300 million for the federal government to buy hybrid or electric vehicles.

CNW Marketing's Spinella said cash-strapped states have been postponing purchases of cars and trucks, a fact that has further depressed auto sales. Without the stimulus package, Spinella was projecting a 1.1-million decline in government and commercial fleet sales this year.

"The stimulus bill will probably put back between 600,000 and 900,000 of those vehicles," Spinella said.

Jim Hall, managing director of 2953 Analytics in Birmingham, predicts that construction spurred by the stimulus also will cause an increase in pickup sales by late summer or fall.

Hall said many contractors who have waited to replace their aging pickups might buy new pickups as they take on the new work.

"It will roll into next year," Hall said of the increase in pickup sales.

## **All about credit, confidence**

Tax cuts make up one of the largest segments of the stimulus package, but are unlikely to generate new car sales, said Jeff Schuster, executive director of forecasting for J.D. Power and Associates.

"Last year's tax-break checks -- most of that was used by consumers for paying down debt," Schuster said.

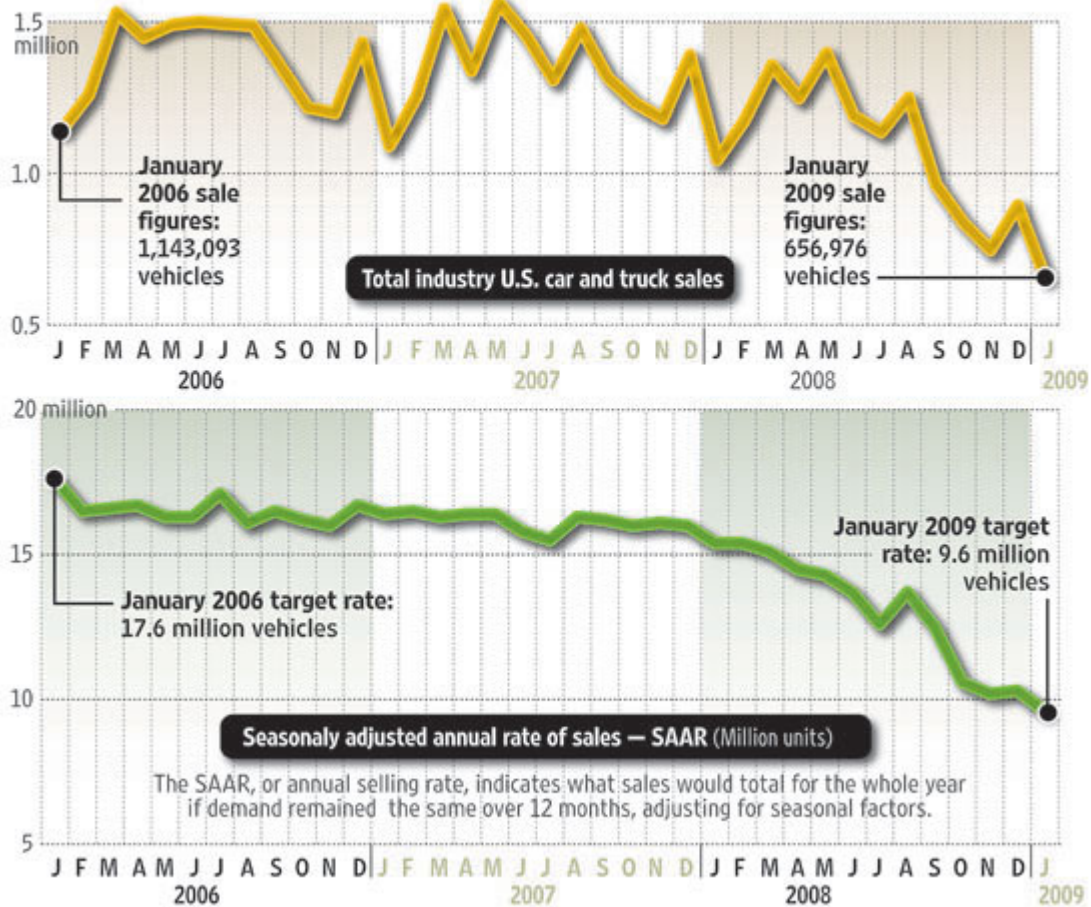
Polk's Yron said the biggest benefit from the stimulus package for the automotive industry would come if it is actually successful at improving consumer confidence and restoring bank lending.

"Anything that stabilizes the economy and makes people a little bit more comfortable about whether or not they are going to keep their job or not -- that is really what matters," Yron said.

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## Severe sales slide pressures industry

In January, all auto manufacturers' U.S. sales dropped 42% compared with January 2006, and the annual rate of industry sales slid 45%. Under these market conditions, experts say, no manufacturer is viable.



Source: Autodata Corp.

KOFI MYLER/Detroit Free Press